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1943

INTERNATIONAL SHOE COMPANY

1809 WASHINGTON AVENUE

St. Louis, Mo.

FINANCIAL STATEMENT

NOVEMBER 30, 1943

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1943

INTERNATIONAL SHOE COMPANY

1509 WASHINGTON AVENUE

St. Louis, Mo.

FINANCIAL STATEMENT

NOVEMBER 30, 1943

January 5, 1944

TO OUR STOCKHOLDERS:

Financial report showing the results of the International Shoe Company's operation for the fiscal year ended November 30, 1943 is submitted herewith.

Net profit for the year was \$6,737,648 which represents an earning of \$2.01 a share on the common stock. This compares with \$6,994,952 or \$2.08 a share last year. Federal income and excess profits taxes (after deducting post-war refund) were \$11,953,086 in 1943 against \$9,639,207 in 1942.

Net sales to customers were \$142,841,095 compared with \$144,256,388 last year.

The Company's own supply plants (tanneries, cotton mill, rubber plant, etc.) produced during the year for its own use shoe materials and supplies to the value of \$68,515,655 which combined with our sales made an aggregate of \$211,356,750 business transacted.

Our factories produced 50,133,401 pairs of shoes, against 54,983,694 last year (canvas rubber soled shoes excluded).

After applying Government tax notes in an amount equal to the provision for Federal income and excess profits taxes, the Company's current assets of \$70,956,175 are twelve times its current liabilities of \$5,943,732.

1943—SECOND WAR YEAR

The full effects of wartime conditions were felt by the shoe industry in 1943. The keynotes were: shortage of materials, shortage of manpower, and seemingly unlimited demand.

Leather and other materials of long-established usage became more and more difficult to obtain for use in civilian shoes. Many substitute materials came on the market, some in substantial volume, but those good enough to justify the use of scarce manpower for their fabrication into footwear, were not plentiful. The ones which the Company used were adopted only after exhaustive testing to prove their worth.

During this period of great mass buying-power, in which consumers bought eagerly and recklessly, the Company deemed it of paramount importance to guard zealously the quality of its shoes, although it entailed a sacrifice of volume. It is gratifying to receive many and wide-spread reports from customers expressing fullest approval of the Company's wartime policy in this respect.

This policy of maintaining quality had the effect of limiting the production in 1943 to the quantities of shoes that could be made out of the limited supply of materials considered suitable for shoes made under our standards.

The Company's operations and results for the year 1943 reflect the statement made in this letter a year ago, which is re-emphasized now: "The Company is determined to make the best shoes possible under present conditions and not to use those conditions as an excuse for lowering the moral standards of its product."

PRODUCTION AND SHIPMENTS

Production, while reduced from the volume attained in 1942, was the highest production of good quality shoes possible with available materials. Shipments exceeded production by more than two and one-half million pairs which were shipped out of our stocks of finished shoes on hand at the beginning of the year. This sharp decline in our inventory of finished shoes was the result of the Company's determination to place as many shoes as possible in the hands of its customers during this period of shortage.

The Company continues to be the largest producer of military shoes for the Government. Government business amounted to 27% of our dollar volume, and accounted for 21% of our total pairs.

While the increase in Government production took place at the same time as a decrease in production of civilian shoes, the Government production was not at the expense of civilian production since, irrespective of Government production, our production of good quality civilian shoes was as high as the limited amount of suitable materials would permit.

WORKING CAPITAL

During the year the combined total of cash and United States Government securities increased approximately \$12,000,000.

In an attempt to deliver all possible footwear to its customers, the Company's inventories were reduced about \$6,000,000 to a minimum working level. Despite the Company's present position of extreme liquidity, as recently as April 1942 all of the Company's cash was needed in its business.

The balance sheet has again been prepared to reflect the Company's position after applying sufficient Government securities to pay Federal income and excess profits taxes in full.

"LAST-IN, FIRST-OUT" INVENTORIES

The Company's plan of maintaining its principal inventories under the "last-in, first-out" inventory method has proved quite advantageous even though wartime conditions have caused partial liquidation during the year of some of these inventories.

Under Section 22-d-6 of the Internal Revenue Code, the Company has the privilege of replacing these inventories at any time up to three years after the close of the war, and obtaining retroactive adjustment of 1943 income and excess profits taxes, in accordance with such replacement.

The Company anticipates replacing these inventories and has made provision for the net cost of so doing in the accompanying financial statement.

INCOME AND EXCESS PROFITS TAXES

The Company's provision for income and excess profits taxes was determined under the Revenue Act of 1942. Results for the year 1943 reflect the full effect of the high wartime rates of taxation.

Excess profits taxes still apply only after the Company's earnings amount to \$1.55 per share, which means \$2.59 per share before deducting 40% for normal and surtax.

WAGES

Under the salary and wage stabilization program, all basic salaries and wages were frozen as of October 1942. Despite this, the unit cost of productive labor has risen because of overtime operations and the increase in the number of inexperienced operators in our plants.

MANPOWER

Despite the replacing of men with women and efforts to maintain our personnel in other ways, the shortage of manpower became more serious as the year progressed. On the whole, however, because of the acute shortage of satisfactory materials, available manpower enabled our factories to manufacture all the shoes of good quality for which materials could be obtained.

Over 5,000 employees of the Company are now in the military forces of the United States. The Company had slightly less than 30,000 employees at the close of the year.

RENEGOTIATION OF GOVERNMENT CONTRACTS

Renegotiation of 1942 Government sales was completed during the year, and settlement was consummated on a basis fully provided for by the 1942 Consolidated Income Account as published. If any similar renegotiation settlement covering the year 1943 does become necessary, we feel it is adequately provided for in the Reserve for Contingencies.

RECONSTRUCTION OF WORN ARMY SERVICE SHOES

The program undertaken by the Office of the Quartermaster General during 1942 for the reconstruction of worn Army Service Shoes has been continued and expanded in the year 1943.

The Company was asked to assume management of a plant at Buford, Georgia, in which the United States Army had been doing this reconstruction work. The Company now has under its management two complete factories producing large quantities of these shoes, and plans have been made for the opening of a third plant for this purpose.

RATIONING

The rationing of shoes by the Office of Price Administration beginning in February 1943 has provided a means for the orderly distribution of the limited production of leather and service types of civilian footwear.

The rationing program encouraged the production of large quantities of non-rationed shoes made of materials other than leather and rubber. The Company produced such shoes in very limited quantities, and only when suitable materials could be found for the manufacture of footwear which would give reasonably good service. It is our opinion that extensive production of non-rationed shoes is attended by substantial hazard both for manufacturer and retail merchant.

GOVERNMENT PRICE CONTROLS

War Production Board Order M-217, as amended February 19, 1943, required all shoe manufacturers to produce civilian shoes in quantities not exceeding their production in an optional base period comprising any consecutive six months from July 1942 through April 1943. However, production of non-rationed footwear made without leather, rubber, or other critical materials, was not brought under production control until September 1, 1943.

The production control further limited the individual manufacturer to shoes falling in the same price ranges as those produced in his base period, thus controlling at the source the proportional production of shoes in various price brackets and strengthening the control of prices under General Maximum Price Regulation, issued by the Office of Price Administration.

We believe that the joint operation of these two controls—that is, production control by price classes under WPB M-217, and price control by OPA's GMPR—have been effective in making available to the consumer shoes at prices in line with those in effect prior to the time of scarcity.

EQUITABLE DISTRIBUTION

In this period in which demand has far exceeded the number of shoes which we could supply, the Company has made an earnest effort to give each of its customers, large or small, a fair portion of its production, based on his purchases in more normal times.

IN CONCLUSION

Despite the uncertainties that have confronted and now confront us at the beginning of 1944, the proven loyalty and co-operation of our organization not only develop great strength and teamwork but give assurance that our problems in 1944 will be met intelligently and courageously. We have an abiding faith in our Country and in our Company.

FOR THE BOARD OF DIRECTORS

Frank C. Rand.
Chairman of the Board.

Byron A. Gray
President.

INTERNATIONAL

CONSOLIDATED I

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ASSETS

CURRENT ASSETS:

Cash in banks and on hand.....	\$	19,255,192
United States Government securities, including tax notes \$16,094,812.....	\$	22,499,066
Less—Amount of tax notes applied against Federal tax liability, as per contra.....		<u>13,050,000</u>
		9,449,066
Accounts receivable:		
Customers, less reserve for cash discounts and doubtful accounts.....		15,841,905
Traveling advances to salesmen and sundry accounts.....		<u>161,028</u>
		16,002,933
Inventories:		
At cost (determined on the "last-in, first-out" method):		
Finished shoes.....		4,079,053
Shoes in process.....		2,067,243
Hides and leather.....		9,086,715
At lower of cost or market:		
Miscellaneous raw materials, merchandise and supplies on hand and in process.....		<u>11,015,973</u>
		26,248,984
		70,956,175
Employees Notes Receivable (under installment purchase plans secured by 3,400 shares of company's own common stock		32,778
Company's Own Common Stock—9,400 shares at net cost (at quoted market prices \$343,100).....		243,134
Advances to (\$375,000) and Investment in Associated Companies.....		472,805
Investment in Stocks of other Companies, Etc. (less reserve)....		188,134
Post-War Refund of Federal Excess Profits Tax (estimated).....		1,040,000
Physical Properties at tanneries, shoe factories, supply departments, and sales branches (based on appraisal as of April 30, 1925, plus subsequent additions at cost):		
Land and water rights.....		2,032,651
Buildings and structures.....		21,826,570
Machinery and equipment.....		18,828,546
Lasts, patterns, and dies.....		<u>1</u>
		42,687,768
Less—Reserve for depreciation.....		<u>27,129,438</u>
		15,558,330
Deferred Charges—insurance premiums, taxes, and sundry.....		416,825
	\$	<u>88,908,181</u>

SHOE COMPANY

ALANCE SHEET

er 30, 1943

LIABILITIES

CURRENT LIABILITIES:

Accounts payable for merchandise, expenses, and payrolls \$	4,913,971	
Officers, stockholders, and employees balances.....	73,807	
Accrued employees vacations.....	635,813	
Employees partial payments for war bonds.....	320,141	
Reserve for Federal taxes on income..... \$	13,050,000	
Less—United States Government tax notes applied, as per contra.....	<u>13,050,000</u>	<u>—</u>
		5,943,732

RESERVES:

For contingencies.....	1,000,000	
For excess cost of replacing inventories maintained on the “last-in, first-out” basis, less income taxes applicable thereto.....	370,000	
For insurance.....	<u>806,246</u>	<u>2,176,246</u>

CAPITAL STOCK:

Common Stock—authorized 4,000,000 shares without nominal or par value, whereof issued and outstanding— 3,350,000 shares.....	50,250,000
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EARNED SURPLUS.....	30,538,203
(Of the earned surplus, \$243,134 used for the pur- chase of company's own common stock, as per contra)	<u> </u>

80,788,203

\$ 88,908,181

INTERNATIONAL SHOE COMPANY
STATEMENT OF CONSOLIDATED PROFIT AND LOSS
For the year ended November 30, 1943

Net sales of shoes and other manufactured merchandise.....	\$ 142,841,095
Other income.....	219,063
	<u>143,060,158</u>
Cost of shoes and merchandise sold, after charging operating expenses, maintenance of physical properties, selling, administrative, and warehouse expenses, and credit losses, less discount on purchases.....	122,621,914
Depreciation of physical properties.....	1,061,812
Other charges.....	93,251
Provision for Federal taxes on income, including excess profits taxes of \$9,496,000, less post-war refund of \$949,600.....	11,953,086
Addition to reserve for contingencies.....	222,447
Provision for excess cost of replacing inventories maintained on the "last-in, first-out" basis, less income taxes applicable thereto.....	370,000
	<u>136,322,510</u>
NET PROFIT FOR YEAR.....	<u>\$ 6,737,648</u>

STATEMENT OF CAPITAL STOCK
AND CONSOLIDATED SURPLUS

Common stock and surplus at November 30, 1942:	
Common stock (outstanding 3,350,000 shares).....	\$ 50,250,000
Earned surplus.....	29,813,635
	<u>80,063,635</u>
Net Profit for the year.....	6,737,648
	<u>86,801,283</u>
Dividends:	
Common stock—\$1.80 per share.....	\$ 6,030,000
Less—Dividends on company's own common stock.....	16,920
	<u>6,013,080</u>
Common stock and surplus at November 30, 1943.....	80,788,203
Divided as follows:	
Common stock (outstanding 3,350,000 shares).....	50,250,000
Earned surplus.....	30,538,203
	<u>\$ 80,788,203</u>

PEAT, MARWICK, MITCHELL & CO.

ACCOUNTANTS AND AUDITORS

St. Louis, Missouri, December 31, 1943.

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS,
INTERNATIONAL SHOE COMPANY,
St. Louis, Missouri.

We have examined the Consolidated Balance Sheet of the International Shoe Company and Subsidiary Companies as of November 30, 1943 and the statements of Consolidated Profit and Loss and Surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the Companies, and, without making a detailed audit of the transactions, have examined, or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary, except that it was not practicable to confirm receivables from United States Government departments, as to which we have satisfied ourselves by means of other auditing procedures.

Under the customary terms of the rental and royalty agreements covering machinery leased by the International Shoe Company, it is liable to the lessor for deferred license fees which are payable when such machinery is returned to the lessor, together with all return freight and repair charges. It is the consistent accounting procedure of the Corporation to charge as operating expenses all current rentals and royalties.

The International Shoe Company has made shipments during the year under contracts with the United States Government. These contracts are subject to renegotiation under the provisions of Section 403 of the Sixth Supplemental National Defense Appropriation Act as amended. While renegotiation proceedings have not begun for the current year, the Company has made provision for the net amount which would be refundable on the basis of the settlement made for the preceding year.

In our opinion, the accompanying Consolidated Balance Sheet, and related statements of Consolidated Profit and Loss and Surplus present fairly the consolidated position of the International Shoe Company and Subsidiaries at November 30, 1943 and the result of the operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & Co.

OFFICERS

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OLIVER F. PETERS . . .	Vice-President
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PAUL B. JAMISON	WILLIAM N. SITTON
H. EDGAR JENKINS	DICKSON S. STAUFFER

TRANSFER AGENTS

MANUFACTURERS TRUST Co., NEW YORK, N. Y.
MISSISSIPPI VALLEY TRUST Co., ST. LOUIS, MO.

REGISTRARS

GUARANTY TRUST Co., NEW YORK, N. Y.
ST. LOUIS UNION TRUST Co., ST. LOUIS, MO.

SALES BRANCHES

ST. LOUIS

Roberts, Johnson & Rand
Peters
Friedman-Shelby
Continental Shoemakers
Pennant Shoe Co.
Jefferson Shoe Co.

ST. LOUIS

Vitality Shoe Co.
Queen Quality Shoe Co.
Dorothy Dodd Shoe Co.
Winthrop Shoe Co.
Conformal Footwear Co.

MANCHESTER, N. H.

Sundial Shoe Co.
Great Northern Shoe Co.
Interstate Shoe Co.

LOCATION OF SHOE FACTORIES AND SUPPLY PLANTS

MISSOURI

Bland
Cape Girardeau
De Soto
Fulton
Hannibal
Hermann
Higginsville
Jackson
Jefferson City
Kirksville
Marshall
Mexico
Perryville
Poplar Bluff
St. Charles
St. Clair
St. Louis
Sikeston
Sullivan
Sweet Springs
Washington
Windsor

ILLINOIS

Anna
Belleville
Chester
Evansville
Flora
Jerseyville
Mt. Vernon
Olney
Quincy
Springfield
Steeleville

NEW HAMPSHIRE

Claremont
Manchester
Nashua
Newport

KENTUCKY

Paducah

ARKANSAS

Malvern

TANNERIES

ILLINOIS

South Wood River

MISSOURI

St. Louis

NEW HAMPSHIRE

Manchester
Merrimack

NORTH CAROLINA

Morganton
North Wilkesboro
(Extract Plant)

PENNSYLVANIA

Philadelphia

WEST VIRGINIA

Marlinton

